



DEPARTMENT OF AUDIT AND CONTROL

AN ASSESSMENT OF ACCURACY OF REVENUE AND EXPENDITURE ASSESSMENTS:

CITY OF BUFFALO RECOMMENDED 2019-2020
FISCAL YEAR BUDGET
AND 2020-2023 FOUR-YEAR FINANCIAL PLAN

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REVISED:
MAY 15, 2019

§ 20-7 COMPTROLLER'S ASSESSMENT OF ACCURACY OF REVENUE AND EXPENDITURE ASSESSMENTS

[Amended 10-2-2012 by L.L. No. 1-2012, effective 10-2-2012]

"On or before the tenth day of May, the Comptroller shall submit to the council an assessment of the accuracy of the revenue and expenditure estimates of the budget and the four-year financial plan the mayor submits to the council. The comptroller shall opine on the sufficiency of the financial plan and whether it contains sufficient data to support the outcomes projected."

INTRODUCTION

Pursuant to the City Charter, and the Comptroller's role as the City's Chief Fiscal Officer, I hereby submit this assessment of the Mayor's Recommended Budget for Fiscal Year 2019-2020, as well as the Four-Year Financial Plan for Fiscal Years ending 2020-2023.

The original filing of May 10, 2019, has been amended to include a new format and reflect some additional information that has been received by my office. Below is an outline of some concerns regarding the revenues in the Recommended Budget and the City's reserve position.

On the positive side, the property tax levy increased \$2.5 million without an increase in residential tax rates and overall revenues appear to be realistically budgeted.

While the Administration relies on some revenue sources that are untested, the pursuit of new revenue streams is worthwhile and encourages growth.

If revenues do not come in as budgeted, reserves will be needed. Over the past two years, the City has used \$57 million in reserves to close budget gaps, but according to our current estimates, will end the current Fiscal Year with a surplus to reduce the use of budgeted fund balance. To maintain this projection, the \$17 million in past due casino funds are critical.

The Recommended Budget for next year does not utilize any fund balance to balance its budget. This is a very positive structural element.

In addition to assessing the accuracy of revenue and expense estimates, this report will address the City's reserve position, the Four-Year Financial Plan, and the potential impact of adopting the Recommended Budget in its current form.

REVENUES

The Recommended Budget includes revenues of \$508.7 million in 2019-2020, a reduction of \$4.9 million, approximately 1% from the prior year. Approximately \$11 million of these revenues are questionable, as a positive outcome in the dispute between New York State and the Seneca Nation is required.

Below is a chart showing budgeted amounts compared to prior and current year actuals, as well as more responsible revenue estimates for this item:

Questionable Items Included in the 2019-2020 Budget	A 2019-2020 Recommended Budget	B Current FY Actual as of 4/30/2019	C 2017-2018 Actual	D Responsible Budgeting	E Potential Overestimated Revenue (A-D)
Tribal Pact Casino Revenue	\$11,000,000	\$0	\$0	\$0	\$11,000,000

TRIBAL PACT CASINO REVENUE

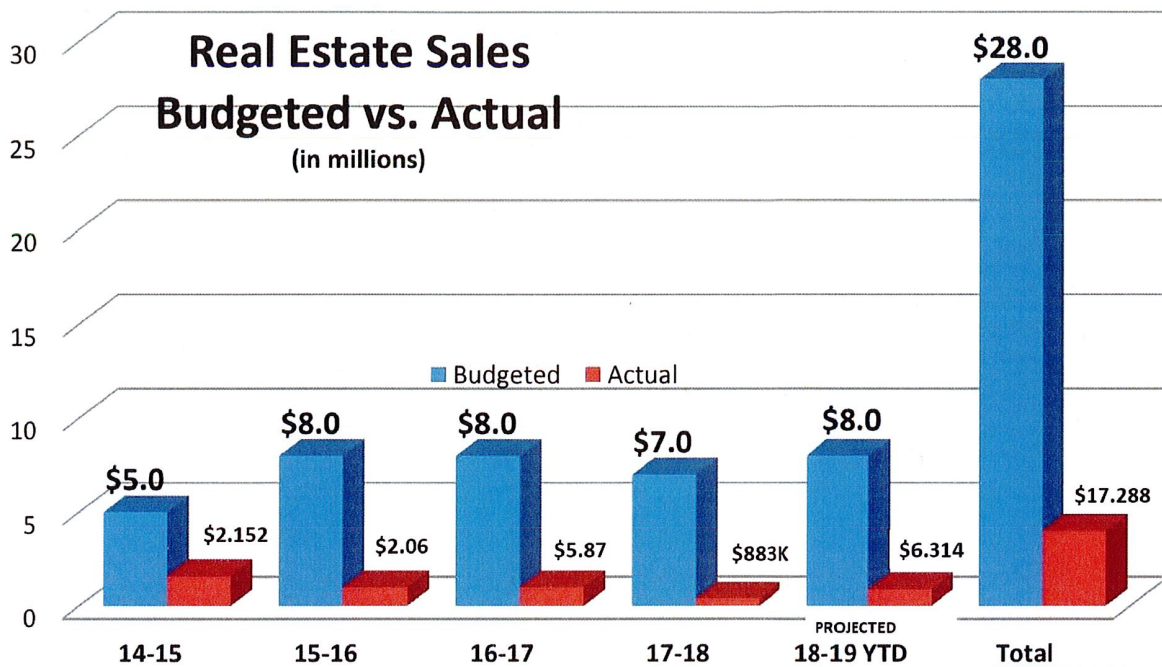
Prior to 2016-2017, the City had been receiving approximately \$7 million per year from the Seneca Nation (via New York State) as the host community for the Seneca Buffalo Creek Casino. A dispute between the Seneca Nation and New York State had stopped those payments in 2016-2017.

In January 2019, a binding arbitration decision was delivered in favor of New York State, finding that the Seneca Nation must continue to pay slot revenue sharing payments to the State and host municipalities, like Buffalo. As reported in the Buffalo News, "The Senecas have appealed to the Bureau of Indian Affairs, which is not expected to overturn the arbitrator's decision." As of this date, the timing and the final outcome of this review is unknown.

However, the State has included casino revenue in its 2019-2020 budget for the upcoming Fiscal Year, and has continued to include the formula for host municipalities to do the same. Because of the uncertainty of the timing of casino revenue, and the calculation of the amount of revenue that is to be received, there is some risk in relying upon this revenue item.

SALES OF CITY-OWNED REAL ESTATE

This is a source of revenue where timing matters, with \$6.9 million budgeted for 2019-2020. The City has received approximately \$11 million in revenue in the past four years, and it projects closing this Fiscal Year with an additional \$6.3 million, as you can see on the following graph:



Actual revenue has been 62% of the \$28 million that has been budgeted during that span. In 2017-2018, the Administration budgeted \$7 million in real estate sales and only took in \$883,000, so the timing of sales and closings is critical.

OTHER ITEMS OF NOTE

The Administration has indicated that it will be handling tax-delinquent properties differently next year, foreclosing on them and taking title prior to the City's In Rem auction.

Under the new process, the City will be the legal title holder at the time of auction, and all claims will be processed afterwards. The Administration is budgeting \$4.8 million of the \$6.9 million in real estate sales to come from this initiative. We believe that the In Rem data from prior years supports this revenue projection.

ENTERTAINMENT TICKET FEE

Revenue from the proposed Entertainment Ticket Fee still requires definition as to the specifics for the program. The 2019-2020 Budget includes revenue of \$775,000, pending the passage of legislation enabling its revenue stream and its adoption. This legislation and its anticipated amendments should be moved forthwith.

GIFTS AND DONATIONS

The 2018-2019 Budget for Gifts and Donations is \$2 million, and the amount realized year-to-date is \$1.3 million, with additional funds expected before the Fiscal Year closes, according to the Administration. The budgeted amount for 2019-2020 is \$1.25 million, a reduction from the prior year's amount, reflecting commitments made publicly to date. A list of these commitments should be included in the Four-Year Financial Plan.

RENTAL DWELLING REGISTRATIONS

This Budget item includes a new initiative requiring banks or grantors of mortgages to pay the City a registration fee as part of any default proceedings of homeowners in the City of Buffalo. The City is budgeting \$2 million on this new initiative based on the current number of mortgages in default. We recommend that enabling legislation is passed before the next Fiscal Year begins, and we are pleased that the proposal and corresponding RFP will not come at any cost to the City.

PARKING METERS

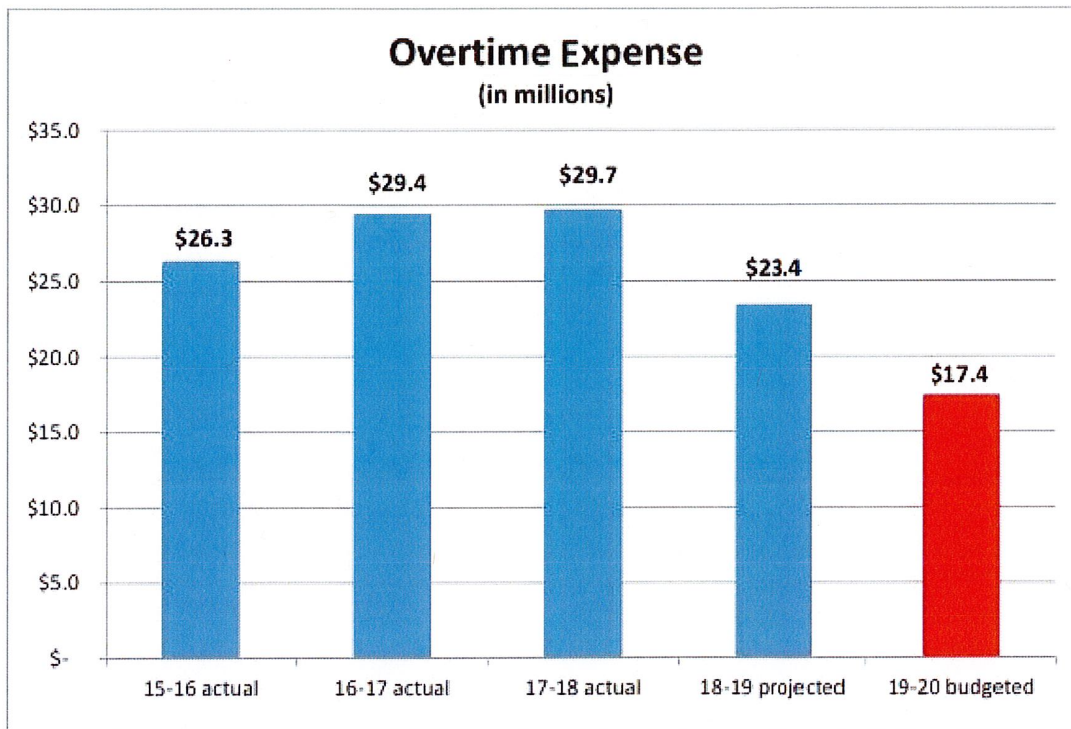
This revenue source should be monitored. The City increased the Budget for this item by \$1.5 million from the prior year. This is due to the addition of more parking spaces as well as increasing rates in specific areas. The full implementation of these changes occurred in March 2019, thus providing two months of data. Averaging March and April, this budgeted revenue would appear appropriate, but parking meter revenue should be closely monitored throughout the Fiscal Year.

EXPENSES

The Recommended Budget includes \$508.7 million in expenses for 2019-2020, a decrease of 1% from 2018-2019 Adopted Budget.

PERSONAL SERVICES

This labor-driven line item represents \$200.5 million of expenses, and includes items such as salary, overtime, duty disability pay, and longevity payments. While attrition is accounted for in the Recommended Budget, vacant positions are not, which could lead to savings on expenses. However, those savings could be lowered with additional overtime costs, which are budgeted at \$17.4 million, despite recent trends indicating expenses could exceed those amounts.



The new firefighters' contract has had a significant impact on reducing overtime expense. Even with the reduction in overtime, it appears that overtime expense is still under budgeted by \$3 to \$5 million in 2019-2020; however, we recognize that additional classes of new firefighters in the ranks will also continue to reduce the expenses.

BILLING AND COLLECTIONS

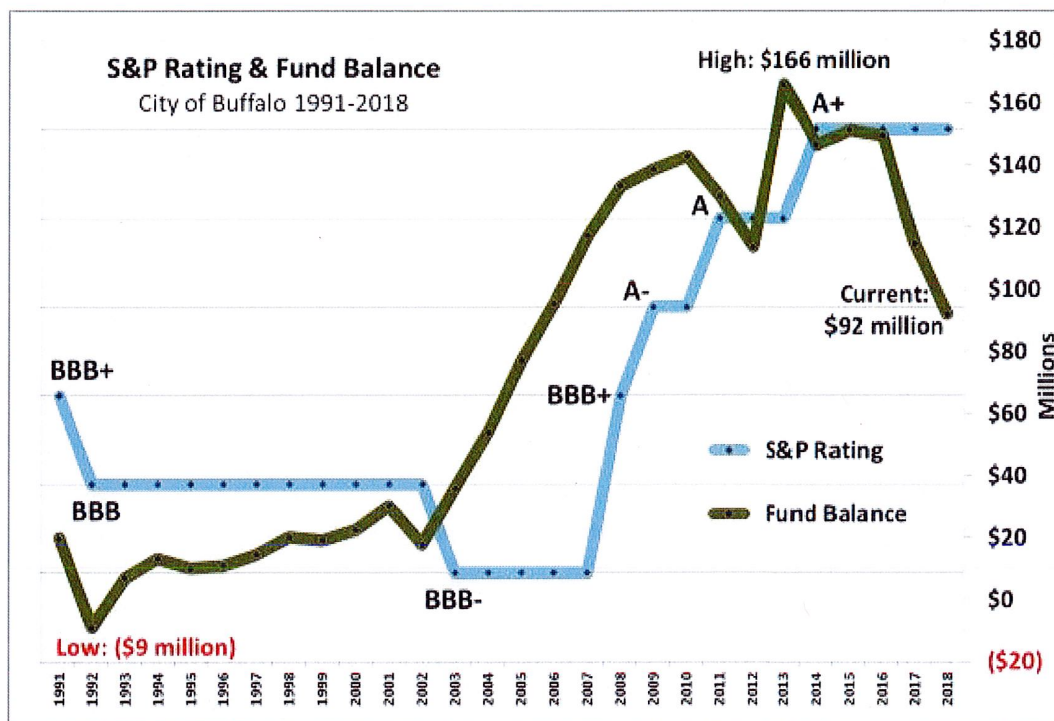
The City is undertaking an initiative to improve the centralized billing and collection for outstanding invoices as well as revising its collection policies and procedures. This is an area where extra focus and resources are needed, and the expectation is that any additional expense will more than pay for itself.

FUND BALANCE

The City's reserves, known as Fund Balance, acts as a savings account for the City. All of the City's Fund Balance is currently set aside for specific purposes. The only category of Fund Balance that can be used to fill potential budget gaps is Unassigned Fund Balance, which today has a zero balance.

The depletion of the City's Fund Balance has led both Moody's and Standard & Poor's to revise the City's bond ratings from "Positive Outlook" to "Stable Outlook." Such actions should be monitored closely.

As you can see from the chart below, the City's bond rating has had a significant correlation with the amount of Fund Balance it has.



FOUR-YEAR FINANCIAL PLAN

The Four-Year Financial Plan allows for increases in the tax levy of about 2% annually, and no other significant increases in other revenue sources. Expenditures are budgeted to increase approximately 1% each year of the plan. Given raises in Union contracts, as well as inflation and annual increases in employee benefits expense, these predicted expense amounts appear understated. The Four-Year Financial Plan should contain sufficient data to support the outcomes projected, and should include a replenishment of the City's Fund Balance.

CONCLUSION

While the 2019-2020 Recommended Budget balances on paper, it contains \$11 million in revenues that are of concern.

Expenses appear to be budgeted very closely to recent actual results, so there is some concern about the potential to offset any revenue shortfalls. While the transparency has improved, we need to remain vigilant about any negative impacts on services and/or depletion of City reserves.

Overall, we agree with the most recent Moody's bond rating, which states, "the City's stable outlook reflects the expectations that reserves and liquidity will remain sound..." We believe this budget proposal, for the most part, is a sound spending plan which relies on recurring, new, and needed sources of revenue.